

## CREDIT OPINION

19 April 2016

### New Issue

Rate this Research >>

#### Contacts

Tiphany Lee-Allen 212-553-4772  
 Analyst  
 tiphany.lee-allen@moody.com

Edward (Ted) 212-553-6990  
 Damutz  
 VP-Sr Credit Officer  
 edward.damutz@moody.com

## Lynchburg, VA

New Issue - Moody's assigns Aa2 to Lynchburg VA's \$49.6M GO Bonds Series 2016

### Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to the City of Lynchburg's \$49.6 million General Obligation Public Improvement and Refunding Bonds, Series 2016. Concurrently, we have affirmed the Aa2 rating on the city's \$229 million of GO debt outstanding. The Aa2 rating reflects the city's stable and diverse tax base that is supported by the presence of multiple higher education institutions and a large regional health care facility. The rating also reflects the city's sound financial position and above average debt burden made manageable by comprehensive policies and self-supporting enterprise debt.

### Credit Strengths

- » Strong operating results driven by conservative management
- » Sizable tax base stabilized by institutional presence

### Credit Challenges

- » Below average wealth levels
- » Above average debt burden

### Rating Outlook

Outlooks are generally not assigned to local government credits with this amount of debt outstanding.

### Factors that Could Lead to an Upgrade

- » Continued growth in tax base
- » Increased reserve levels
- » Reduction in debt burden

### Factors that Could Lead to a Downgrade

- » Sizeable decline in tax base
- » Reduction in reserves
- » Significantly increased debt burden

## Key Indicators

Exhibit 1

<b>Lynchburg (City of) VA</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 5,864,104	\$ 5,888,731	\$ 5,930,510	\$ 5,945,181	\$ 6,002,828
Full Value Per Capita	\$ 76,707	\$ 76,276	\$ 76,613	\$ 76,344	\$ 75,849
Median Family Income (% of US Median)	79.7%	82.1%	82.1%	82.1%	82.1%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 203,166	\$ 207,769	\$ 215,005	\$ 220,116	\$ 226,546
Fund Balance as a % of Revenues	23.1%	23.4%	23.0%	24.8%	23.5%
Cash Balance as a % of Revenues	26.6%	26.2%	24.3%	27.3%	26.3%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 177,415	\$ 162,999	\$ 148,593	\$ 124,263	\$ 129,125
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	0.4x	0.6x	0.6x
Net Direct Debt / Full Value (%)	2.1%	2.0%	1.5%	2.1%	2.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.3x	1.4x	1.2x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	4.6%	4.9%	4.6%	1.6%

Source: Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Regionally Important Local Economy Continues to benefit from Diversification and Strong Institutional Presence

The city's economic base is expected to remain stable given a diversified private employment base with ongoing investment and the presence of multiple higher education institutions and a large regional health care facility. A regional commercial center in central Virginia (Commonwealth of) (GO rated Aaa/stable), Lynchburg has experienced a moderate 2% average annual growth in full valuation over the last five years and is now fully valued at \$6 billion. Continued growth is expected as diversification efforts continue. In fiscal 2015 private companies invested over \$57.3 million in the city and created 287 jobs while commercial building permits totaled \$80 million.

Expansion of existing businesses reflects the city's economic development strategy focused on encouraging firms already located in the city to remain and expand their facilities. These programs include the development of two publicly owned industrial parks, the creation of a small-business assistance center with loans and low-cost office space, and the use of various targeted incentives including subsidized land, infrastructure, and cash grants. The city has also invested in a variety of redevelopment projects designed to revitalize the downtown area by attracting new commercial tenants and residential housing. Downtown currently contains 760 apartment, lofts condos and downtown business have increased by 205% in 10 years with assessed value nearly doubling since 2004.

Lynchburg also benefits from a number of stabilizing higher education institutions and the health care industry. Centra Health (rated A2/stable), the city's largest employer with 6,100 employees, provides three health and rehabilitation centers within Lynchburg. The city also includes five colleges, with a combined enrollment approximating 24,388, including Liberty University (rated Aa3/stable), which has aggressive growth plans reportedly intended to expand its 12,000 student body to 20,000 over the next 10 years. Liberty University also recently underwent a large scale \$600 million campus transformation. Approximately 31% of the city's population is full-time students. Lynchburg's wealth indicators were below average representing 68.3% of the state and 79.7% of the nation, while per capita income represents 67.2% of the state and 79.0% of the nation. It should be noted that the presence of a sizable student population tends to negatively skew wealth indices. Full value capita, at \$77,084 also remains below state and national medians. The city's unemployment rate of 5.4% is slightly above the nation and above state medians.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Financial Operations and Reserves - Strong Financial Operations with Sizable Reserves Despite One-Time Capital Transfer in Fiscal 2015

Lynchburg has a history of consistently solid reserve levels, with unassigned/undesignated General Fund balance averaging 18% of revenues over the last five years. Most recently, the city ended fiscal 2015 with a slight drop in total fund balance following a sizable \$6.9 million transfer to the city's Capital Project Fund for one-time capital. Tax revenues were over-budget due to the positive performance of delinquent property, personal property, meals, and business license taxes. Total fund balance equaled \$53 million or a sound 30% of revenues. The city's Schools Capital Project Fund totaled \$4 million in fiscal 2015. Growth in economically sensitive revenues (meals, lodging and sales tax) along with business license taxes continue which positive growth annually since 2011. In fiscal 2015 sales tax grew by 8.4%, meals and lodging tax revenues grew by 4.8% and business license tax revenue increased by 1.7%, all reflecting a strengthening local economy.

The fiscal 2016 budget represents a 3.8% increase from the fiscal 2015 budget and includes \$9.9 million in appropriated fund balance for capital projects which is consistent with City Council's adopted financial policies. Based on preliminary projections, the city expects to end fiscal 2016 with an approximate \$4 million increase in General Fund balance. This anticipated increase in reserves is attributable to the positive performance of various local taxes including personal property, meals, and sales taxes, as well as conservative budgeting of expenditures.

### LIQUIDITY

The city's liquidity position remains strong with net cash as a percent of revenues of averaging more than 25% for the last five fiscal years. Fiscal 2015 cash totaled \$49 million or 27.9% of revenues.

## Debt and Pensions: Above Average Debt Burden Expected to Remain Manageable

The city's debt burden is expected to remain manageable in the near-term despite additional borrowing plans given anticipated enterprise support for a significant portion of current and future long-term debt. The city's direct debt burden is an above average 2.6% of full valuation and net of approximately \$101 million in enterprise debt due to the self-supporting nature of the city's water and sewer systems. The city's Revenue Supported Debt policy requires that enterprise funds meet a debt service coverage ratio of at least 1.2 times.

A substantial portion of sewer debt has been issued to comply with the city's combined sewer overflow (CSO) special order requirements. Management indicates that it will continue to raise rates to comply with the special order and to fund additional debt service. The city's \$180 million five-year Capital Improvement Plan (2016-2021) primarily consists of \$76.5 million in transportation projects, \$22.6 million in sewer projects and \$16.8 million in water projects. Approximately \$34 million of the Capital Improvement Plan will be funded with additional GO bonds, \$10.5 million of water bonds that are expected to be self supporting, while the remainder of the plan will be funded with pay go, low-interest state loans and state grants. Debt service represented a modest 8.1% of operating expenditures in fiscal 2015.

### DEBT STRUCTURE

All of the city's debt is fixed rate.

### DEBT-RELATED DERIVATIVES

The city is not party to any derivative agreements.

### PENSIONS AND OPEB

The city and the city school board participate in the Virginia Retirement System defined benefit pension plan administered by the Commonwealth of Virginia (GO rated Aaa/stable). The city contributed 100% of its ARC for both of its pension plans in fiscal 2015. The city's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$234 million or 1.07 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. We determined the city's share of liability for the state-run plans in proportion to its contributions to the plans.

The city and school board also provide Other Post-Employment Benefits (OPEB) to employees. The city contributed 98.5% of its OPEB ARC in fiscal 2015 and 77.5% of the school board's OPEB ARC.

### Management and Governance

Lynchburg has strong management including sound policies covering fund balance and reserves, debt, and capital planning. Virginia cities have an institutional framework score of "Aaa," or very strong. City revenues are highly predictable as the majority come from property taxes. Revenue raising ability is high because cities have the ability to increase property tax rates annually, without limit. Expenditures, which are primarily for educational costs, are highly predictable and cities have a strong legal ability to reduce costs quickly if needed given a modest fixed cost burden and no collective bargaining units.

### Legal Security

The bonds are secured by the city's general obligation unlimited tax pledge.

### Use of Proceeds

\$17 million of new money proceeds will fund various general fund capital projects, \$12.6 million of new money proceeds will fund various water sewer projects (debt service is expected to be self-supporting). Additional proceeds will be used to refund various outstanding maturities for an expected net present value savings above 3% without extending debt maturity.

### Obligor Profile

Located in central Virginia (GO rated Aaa/stable) approximately 70 miles south of Charlottesville (rated Aaa/stable), Lynchburg acts as a commercial center for the region. The city is home to five higher education institutions, including Liberty University (rated Aa3/stable), the largest private university in the Commonwealth.

### Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

### Ratings

Exhibit 2

#### Lynchburg (City of) VA

Issue	Rating
General Obligation Public Improvement and Refunding Bonds, Series 2016	Aa2
Rating Type	Underlying LT
Sale Amount	\$49,600,000
Expected Sale Date	04/29/2016
Rating Description	General Obligation

Source: Moody's Investors Service

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1023994

Contacts

Tiphany Lee-Allen                      212-553-4772  
*Analyst*  
tiphany.lee-allen@moody's.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454